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SUBJECT: NO "FEBRUARY CRISIS" IN EAST CHINA, BUT ANXIETIES ABOUT
SOCIAL STABILITY REMAIN

REF: A. (A) BEIJING 400
[1](#)B. (B) 08 SHANGHAI 522 AND PREVIOUS
[1](#)C. (C) SHANGHAI 66
[1](#)D. (D) BEIJING 448
[1](#)E. (E) SHANGHAI 39
[1](#)F. (F) GUANGZHOU 114
[1](#)G. (G) SHANGHAI 23
[1](#)H. (H) SHANGHAI 28
[1](#)I. (I) SHANGHAI 103
[1](#)J. (J) SHANGHAI 51

CLASSIFIED BY: CHRISTOPHER BEEDE, POL/ECON CHIEF, U.S. CONSULATE
SHANGHAI, U.S. DEPARTMENT OF STATE.
REASON: 1.4 (b), (d)

SUMMARY

[1](#)1. (C) The global economic slowdown has not led to significant social unrest in East China during early 2009 as was predicted by those analysts who warned of a possible "February Crisis" brought on by the nexus of rising numbers of unemployed migrant workers and university students' fears of poor job prospects after graduation (see also Ref A). Concerns remain, however, about potential triggers for social instability in the region, particularly resulting from factory closures and subsequent migrant laborer lay-offs in the Yangtze River Delta's export-oriented areas. Frequent travel by CongenOffs throughout the Consular District since early December underscored the unique socio-economic differences between provinces -- and even within provinces -- further indicating that social unrest in East China would not likely take the form of a unified reaction by unemployed migrant workers or students in the region. Variances in local conditions make it more likely that in the event of incidents of social instability in 2009, protests probably would be localized rather than directed at the Central Government. For more details on CongenOffs' recent travel and related reporting cables, please see Appendix below. End Summary.

EAST CHINA: AN ECONOMIC JUGGERNAUT

[1](#)2. (SBU) Consulate Shanghai's East China Consular District -- comprising Shanghai Municipality, Zhejiang Province, Jiangsu Province, and Anhui Province -- is one of China's wealthiest regions. Shanghai, Zhejiang, and Jiangsu constitute the Yangtze River Delta (YRD) economic juggernaut, and the three province-level entities rank among the top five in GDP in China. East China boasts a well-developed service sector, and services account for more than 40 percent of the region's GDP (and the

service sector accounted for 53 percent of Shanghai's GDP in 2008). The YRD region also has an abundance of export-oriented firms in industries ranging from electronic components to textiles to automobiles. Like the trade-oriented Pearl River Delta (PRD) in Southern China, the YRD has not been immune to the twin effects of China's domestic economic slowdown and the global financial crisis.

EXPORT-ORIENTED FIRMS FACING THE DOWNTURN

13. (C) East China's export-oriented firms began feeling the crunch of declining demand as early as late 2007. Providing an introduction in early December 2008 on the woes of Zhejiang-based exporters, Ye Hang, an economics professor at Zhejiang University, summarized the difficulties of many East China firms, stating that renminbi (RMB) appreciation, elimination of the export tax rebate, and the Labor Contract Law (LCL) contributed to rising costs, particularly in sectors such as the textile industry where profit margins are small (Ref B). By mid-2008, Ye said, Zhejiang and other manufacturing areas felt the effects of China's tighter monetary policy. Facing liquidity problems, larger companies in Zhejiang began to amass mounting debt, and factories started to close in Hangzhou, Shaoxing, and Yiwu. Suppliers of large firms started to fail in October 2008, Ye said, leading to more light industry factory closures. During a second meeting in early February 2009, Ye told PolOff that the economic situation was unchanged, and he ominously predicted that retail consumption likely would nosedive in Zhejiang in the second half of the year (Ref C).

IMPACT ON MIGRANT WORKERS...

14. (C) While authorities in Shanghai, Jiangsu, and Zhejiang have watched worriedly as their exports dropped during 2008 and early 2009, resulting in some factory closures, government officials in Anhui Province and northern Jiangsu Province have been focusing on the impact of those closures on employment opportunities for migrant workers. Poor rural residents in Anhui and northern Jiangsu typically rely on remittances from the YRD for 50 to 70 percent of rural income. Officials in these areas are increasingly nervous about recent Central Government reports that 20 million migrant workers throughout China lost their jobs prior to the Lunar New Year holiday. According to Dong Baohua, a well-known labor expert who is a professor at the East China University of Political Science and Law, however, the true number of unemployed migrant workers is possibly as many as 40 million. Rural-to-urban migrants do not want to return home to farm, Dong stated, and while many laborers in East China have saved a considerable amount of money (perhaps more than in other parts of the country as they have enjoyed the YRD's higher wages), many of them will run out of savings by September or October 2009.

...AND STUDENTS, TOO

15. (C) There remains concern that many of East China's current university students will not be able to find jobs after graduation this year, leading to another potential source of discontent. Generally-speaking, however, Consulate contacts are optimistic that university students will not be a source of social unrest (similar to views reported Ref D from Embassy Beijing). Professor Dong pointed out that many of his students are planning to attend graduate school. Ding Hong, a researcher at the Jiangsu Provincial Academy of Social Sciences, added that many graduates will return home to live with their parents. "Migrant workers are a bigger problem than students," Ding said. "Because the workers have nothing else to do."

OUTBREAKS OF SOCIAL UNREST LIMITED SO FAR

16. (C) Despite the severe strains on East China's socio-economic situation, including large-scale layoffs of migrant workers, there have been few reported outbreaks of social unrest to date, and Consulate contacts commented on the notable lack of

incidents during the "February Crisis" period. Among the few accounts were media reports of social unrest in the following cases dating back to 2008 Q4, when the economic slowdown accelerated:

--According to the Los Angeles Times, 2000 workers in Shaoxing, Zhejiang Province jammed the streets outside a textile factory after it closed in October 2008. The protestors blocked traffic and scuffled with the several hundred police officers who were called to restore order.

--Approximately 1000 laid off migrant workers in Shanghai's Minhang District protested on December 8, 2008 after they were locked out by a Taiwanese electronics company that had closed its factory.

--Hundreds of migrant workers reportedly clashed with police in Tongxiang, Zhejiang Province in mid-February 2009 after a migrant worker was injured in a traffic accident. According to the South China Morning Post, although not directly related to factory closures, the incident illustrated the tensions between migrant workers and locals in East China as a result of the economic downturn.

¶7. (C) While it is difficult to predict where future incidents might occur, travel by Consulate Pol/Econ Officers throughout the Consular District since early December, as well as meetings with Shanghai-based experts, uncovered areas of concern throughout East China. The below analyses of Shanghai Municipality, Jiangsu Province, Zhejiang Province, and Anhui Province track socio-economic trends in each part of the Consular District, highlighting possible trouble spots, as well as factors likely to mitigate the probability of outbreaks of social unrest in 2009.

SHANGHAI: FOCUS ON KEEPING THE ELITES HAPPY

¶8. (C) As China's economic and financial capital, Shanghai remains focused on keeping educated elites content. Shanghai Party Secretary Yu Zhengsheng told the Consul General on January 16 that securing employment for university graduates would be the municipal government's top concern in 2009, echoing an emphasis heard during Shanghai's "Two Meetings," the annual plenary sessions of the Shanghai Municipal People's Congress (SMPC) and Shanghai Committee of the Chinese People's Political Consultative Conference (CPPCC) (Ref E). A possible slowdown in Shanghai's service sector, including real estate, however, could further dampen university graduate job prospects.

¶9. (C) The Shanghai Municipal Government is taking steps to ease employment pressures. Mayor Han Zheng announced in mid-February that the municipal government would reform hukou residency rules to make it easier for talented job seekers to qualify for permanent residency in the city. The reform may be insufficient to effect real change -- Tongji University professor Wang Xiaoyu told PolOff on March 10 that the impact of the reform would be "extremely limited" because of restrictions on who can qualify -- but the move indicates that the Shanghai Municipal Government may have policy room to maneuver to prevent unrest. Shanghai also benefits from a wealthier population that is able to absorb unemployed college graduates, as they most likely can afford to live at home or move on to graduate school.

ZHEJIANG: SENDING MIGRANTS BACK TO SICHUAN

¶10. (C) Zhejiang, the Chinese province that is most reliant on the private sector for economic growth, has been the part of East China that has been most vulnerable to the external shocks resulting from the global financial crisis. Several Consulate contacts have referred to Zhejiang as a "small Guangdong" by which they mean a province full of private export-oriented firms that have struggled in the face of the economic slowdown (Ref F). Zhejiang's low-end labor-intensive industries, especially textiles, have struggled, and the result has been that many factories have closed in Shaoxing, Yiwu and other Zhejiang cities (see also Refs B and G).

¶11. (C) The bulk of Zhejiang's migrant laborers are from outside the province with many historically coming from Sichuan. For local government officials concerned about social instability resulting from factory closures, therefore, the standard operating procedure prior to the Lunar New Year holiday was for local governments to pay unemployed migrant workers their remaining wages, as well as provide money for the trip home, thereby preventing large numbers of disgruntled workers from gathering in cities like Shaoxing. Zhejiang now is ramping up the province's transformation to a high-tech knowledge economy centered in Hangzhou, the provincial capital, and is banking on a strong university education system that produces a well-trained work force, hoping the talented labor pool will attract more foreign investors. Commodities firms in Yiwu and elsewhere hope product innovation and product market diversification, coupled with hopes for increasing domestic demand, will help insulate them from the downturn and alleviate labor unrest.

JIANGSU: FALLING BACK ON STATE-OWNED ENTERPRISES

¶12. (C) Jiangsu's economic growth slowed significantly during the final quarter of 2008, and a January 8 Reuters report stated that Jiangsu should expect zero export growth in 2009. From a social stability perspective, Jiangsu is unique because it is both a sending area and receiving area for migrant workers. With Jiangsu Province bisected by the Yangtze River, more than 50 percent of the migrant workers in wealthy southern Jiangsu Province are from less developed northern Jiangsu Province. The labor cycle between southern Jiangsu and northern Jiangsu is a formalized relationship, said Suzhou University Sociology Department Head Gao Feng, with northern Jiangsu providing labor for factories in southern Jiangsu (Ref H). With many export-oriented firms in southern Jiangsu struggling, migrant workers from northern Jiangsu are losing their jobs. Gong Pixiang, President of the Jiangsu Provincial High Court, announced during the March session of the National People's Congress in Beijing that the number of labor lawsuits in Jiangsu increased 139 percent in 2008, skyrocketing to 29,862 cases primarily as a result of the economic slowdown.

¶13. (C) Consulate contacts say the Jiangsu Provincial Government will take a more interventionist approach in 2009, seeking to further improve the province's social insurance system (which already is among China's best for medical care, pensions, and welfare), and by falling back on state-owned enterprises (SOEs). Party and government officials in Lianyungang, a port city in northern Jiangsu, told Consulate EconOffs during a March 2-4 visit that the city is offering free training in factory assembly line and other basic job skills to returning migrants, for instance, and exhorting local companies to hire such returnees. The rich-poor gap between the northern and southern parts of the province may be serious, said Ding Hong from the Jiangsu Academy of Social Sciences, but local officials are confident the more impoverished north will weather the economic storm and avoid major social stability incidents because: (1) northern Jiangsu's countryside is wealthier than in other parts of China, and (2) better-off southern Jiangsu cities will continue to support their northern neighbors.

ANHUI: RURAL MIGRANTS WITHOUT A DESTINATION

¶14. (C) Local government officials in Anhui, East China's poorest province, initially expressed optimism that China's economic downturn would have little impact on the province's economy because of its lack of export-oriented firms. As a primarily rural province that serves as a source for many of the YRD's migrant workers, however, Anhui (particularly in the impoverished northern part of the province) is increasingly concerned about labor unrest resulting from the return home of unemployed migrants. Lin Fei, a researcher at the Anhui Academy of Social Sciences (AASS), estimated that approximately 11 million migrants (roughly one-sixth of Anhui's total population) are working outside the province, mostly in the YRD, and those migrants are facing difficulties readjusting to life in the

countryside since being laid off by cost-cutting employers prior to the Lunar New Year (Ref I). With low levels of investment in Anhui, there are few non-farm job opportunities for returning migrants.

¶15. (C) Anhui officials hope the province will be able to further develop its agricultural sector, attract outside investors in search of lower labor costs, bolster SOEs' production, and benefit from the Central Government's economic stimulus package (Refs I and J). Recent travel to Anhui indicates that utilizing these tools to avoid unrest likely will be more successful in more prosperous southern and eastern Anhui than in the northern part of the province, which is burdened by high population density, limited land (which recently experienced a significant drought), and dependence on migrant remittances for its economy.

COMMENT: FUTURE PROTESTS LIKELY TO BE LOCAL AFFAIRS

¶16. (C) Investigating the social stability situation with contacts in Shanghai and on travel to Zhejiang, Jiangsu, and Anhui underscores the unique socio-economic differences between provinces -- and even within provinces -- further indicating that possible social unrest in East China is not likely to take the form of a unified reaction by unemployed migrant workers or students in the region. Residents of Anhui likely will view the economic downturn much differently than residents of Zhejiang, for example. Consulate Officers also have observed distinct differences between northern and southern Anhui, northern and southern Jiangsu, and labor-intensive industries and hi-tech industries in Zhejiang. Variances in local conditions make it more likely that in the event of incidents of social instability in East China in 2009, protests probably would be localized and not directed at the Central Government. Unemployed migrant workers in northern Anhui Province, for example, may protest against local officials for failing to help them find jobs as their savings run out, but we do not foresee social unrest spreading behind localized cases unless some other political event triggers more widespread discontent.

APPENDIX

¶17. (C) Consulate Shanghai Pol/Econ Officers drafted more than 30 reports related to social stability in East China during a three-month period beginning in early December 2008 and including the Lunar New Year when many migrant workers returned to their hometowns to celebrate the holiday. Consul General, DPO, and Pol/Econ Officers frequently met with Shanghai-based contacts to discuss social stability concerns and traveled outside Shanghai 16 times during the period to discuss social stability issues with contacts in other parts of the Consular District, covering Zhejiang Province (Hangzhou, Yiwu, Wenzhou, and Ningbo), Jiangsu Province (Nanjing, Suzhou, and Lianyungang), and Anhui Province (Hefei, Fuyang, and Hanshan). See below the list of related cables to date:

--SHANGHAI 111 - Economic Slowdown Puts the Brakes on Shipping Traffic in the Yangtze River Delta

--SHANGHAI 105 - Yangtze River Delta Property Developers Feeling the Downturn

--SHANGHAI 103 - Rural Anhui: Calm on the Surface But Sea Monsters Lurking Below

--SHANGHAI 96 - Anhui's Auto Industry Hurt By Economic Downturn, Benefits from Government Stimulus Measures

--SHANGHAI 90 - Economic Issues Dominate Jiangsu Court, Procuratorate Workload

--SHANGHAI 89 - Jiangsu Scholars Seek Clearer U.S. Policies on Financial Crisis, and Quick Efficacy of Same

--SHANGHAI 85 - Taiwan Businesses in Nanjing Hurt By Economic Downturn, Labor Law, Financing Difficulties

--SHANGHAI 79 - Japanese Manufacturers in East China Hit Hard by Economic Downturn, But Not Laying Off Workers

--SHANGHAI 78 - Government Housing Stimulus Plans Focused on Low-Income Families

--SHANGHAI 74 - U.S. Corporations Limiting Layoffs Despite Global Crisis

--SHANGHAI 70 - Bao Steel Gloomy on Quick Economic Recovery

--SHANGHAI 66 - Social Stability in Zhejiang: Calm for Now

--SHANGHAI 63 - Shanghai Reforming Migrant Children Education, But Challenges Await

--SHANGHAI 57 - Zhejiang Economic Engine Still Moving, But Trade Sector Struggling

--SHANGHAI 51 - Rural Eastern Anhui Stable and Prosperous in the Year of the Ox, But Concerns in Province's North

--SHANGHAI 50 - Social Stability in Jiangsu: Scholars Offer Different Views

--SHANGHAI 46 - Wenzhou - A Canary in China's Economic Mineshaft

--SHANGHAI 44 - Nanjing Bankers Note Surge in Government Project Loans

--SHANGHAI 39 - University Graduate Unemployment Shanghai's Top Concern

--SHANGHAI 28 - Southern Jiangsu's View on Social Stability

--SHANGHAI 25 - Shanghai Mayor's Work Report Follows Extraordinary -- But Challenging -- Year

--SHANGHAI 24 - Shanghai "Two Meetings" Open: Leaders Facing Economic and Social Challenges

--SHANGHAI 23 - Some Economic Optimism Persists in Yiwu

--SHANGHAI 19 - Shanghai Labor Conditions Remain Stable as Migrants Head Home for Lunar New Year

--08 SHANGHAI 581 - Economic Crisis Crimping Revenues of Zhejiang Export Hub

--08 SHANGHAI 571 - Shanghai COFCOM DG: Shanghai's Economy on Solid Ground, But Trade Falling, Concerns Increasing

--08 SHANGHAI 562 - (C) Shanghai Lawyers Say They are Told to Stay Away from "Sensitive" Cases

--08 SHANGHAI 558 - Real Estate Website Offers Window on Social Stability

--08 SHANGHAI 554 - Shanghai Leaders Look Ahead But Challenges Loom

--08 SHANGHAI 547 - (C) Shanghai Contacts: "08 Charter" Gaining Momentum, Concerns About "February Crisis"

--08 SHANGHAI 526 - Global Economic Crisis Hurting Taiwan Businesses in Kunshan

--08 SHANGHAI 522 - (C) Zhejiang: Factory Closures Raise Social Stability Concerns

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